Secta. H-37—100,000—28-5-38.

Dev. (1954) Department.

Ug SERIES.

G.O. No. 27

Dated 4-1-49

[Despatch Abstract.]

Cooperative Societies- Land Mortgage Banks- Margin between borrowing and lending rates of interest- Reduction- Results- Annual report for 1947-48- Recorded.

Cooperative Department.

From Sri Rao Bahadur J.C. Ryan, M.A.,
Registrar of Cooperative Societies,
Madras.

To
The Secretary to Government,
Development Department,
Fort St. George, Madras.

No.Rc.78545/48.H dated 3-12-48.

Sir,

Sub: Cooperative Societies- Land Mortgage Banks- Margin between borrowing and lending rates of interest- Reduction to 2 1/4% from 3%- Annual report- Submission of

Ref: Govt. (Devt.Dept). Memos No.27175.B.III/47-2, d/3-4-47 and
No.122067. B.III/48-1 d/18-11-48.

In G.O. No. 1197, Development, dated 19-3-47, Government permitted the reduction of the margin between the rate of interest paid on debentures by the Central Land Mortgage Bank and the rate of interest charged on loans by primary Land Mortgage Banks to the ultimate borrower from loans 3% to 2 1/4%. In para 2 of the same Government Order, I was asked to review the position every year and submit a report to Government on the financial position of the Central Land Mortgage Bank as affected by the reduction in the margin and on the appropriate action to be taken, if the soundness of the bank was found to be impaired.

2. Of the margin of 3% prior to the reduction, the Central Land Mortgage Bank was appropriating 2% to itself. Now it is appropriating only 1 1/4% out of the margin of 2 1/4%. The reduction in the margin of interest was given effect to in respect of loans advanced from 18-4-47 onwards. The following figures as on 30-6-47 and as on 30-6-48 give a bird's-eye view of the financial position of the Central Land Mortgage Bank before and after the reduction.

	1947. Rs.	1948. Rs.
1. Paid up share capital.	11,64,400	11,93,500
2. Reserve Fund	15,51,390	17,28,818
3. Other Reserves	4,40,000	4,90,000
4. Debentures in circulation	350.84 lakhs	341.55 lakhs
5. Other borrowings	38.51 "	39.92 "
6. Loans to Primary Land Mortgage Banks.	265.10 lakhs	299.10 "
7. Loans issued during the year.	45.66	61.55 "
8. Investments I Debenture Redemption funds.	126.03	76.00 "
" II Others	31.62	42.17 "
9. Net Profits	2.75	2.34 "

From the above figures, it may be seen that there has been an all round progress. The amount of debentures in circulation as on 30-6-48 decreased as compared with that on 30-6-47, because of the cancellation of debentures of the Face value of Rs. 59.29 lakhs, during 47-48 in pursuance of G.O. Ms. No. 3822, Development, dated 28-7-47.

3. During the year 47-48 the bank worked at a net profit of Rs. 2.34 lakhs as against Rs. 2.75 lakhs in 46-47. The fall in profits is mainly due to the following factors.

(i) Deduction, from the profits, of interest overdue and accured on overdue loans; On 30-6-48, there was a sum of Rs. 11,001/- under "interest overdue and accured on overdue loans". The entire amount was due from the Tadepalliegudam Land Mortgage Bank (Under Liquidation) which could not meet the demand on account of the alleged misappropriation of its funds by its Ex-secretary. This amount was deducted from the profits before arriving at the net divisible profits, as against a sum of only Rs. 2947-12-0 deducted in the previous year.

(ii) Debiting to profit and Loss Account the difference between the cost price and the market value of the Government Promissary Notes, when the latter were trasferred to the sinking fund accounts. During 47_48, the bank purchased Government Promissary Notes above par in some cases out of its general funds. They were subsequently transferred to Sinking Fund accounts when the demand for the annual instalments arose. At the time of trasfer, the market value of similar securities was less than their cost price and hence as a measure of cuation, I permitted the bank to recoup, for purposes of investment, their market values only, in such cases. ~~The investment, their market~~ The difference had therefore to be debited to Profit and Loss Account. The amount so debited during theyear 1947-48 was Rs. 15,213/-.

(iii) Reduction in the margin between the borrowing and the lending rates of interest. The amount of loans outstanding against Primary Land Mortgage Banks on 30-6-48 classified as per rates of interest are given below.

Rate of Interest.	Outstanding as on 30-6_47. Rs.	Outstanding as on 30-6-48. Rs.
5 1/2 per cent	29,13,329	25,30,930
5 "	1,58,79,434	1,43,14,965
4 3/4 "	27,67,854	26,15,105
4 1/2 "	18,97,535	56,77,507
4 1/4 "	9,52,580	69,45,273
4 "	20,99,360	18,26,720
	2,65,10,092	2,99,10,500

The average lending rate of the bank as on 30-6-47 was 4.88% and on 30-6-48, it was 4.76%. This reduction is primarily due to the reduction in the margin from 2% obtaiing till April 47 to 1 1/4% in operation from that date onwards. Thus a major portion of the amount lend in 46-47 was lent with a margin of 1 1/4%. Yet during 47-48, the bank earned by way of interest on loans Rs. 13.81 lakhs as against Rs. 12.69 lakhs in the previous year. This was due to the receveries out of the loans issued in earlier years and also to the appreciable increase in the amount of loans issued during the year.

iv) Increase in overheads:- The bank incurred the following expenditure towards cost of its establishment, contributions towards cost of Government staff and contingencies during 46-47 and 47-48.

Head of account.	46-47. Rs.	47_48. Rs.

Head of account.	46-47. Rs.	47-48. Rs.
1. Establishment.	56,298	74,324
2. Contributions to Government Staff	1,18,556	1,44,433
3. Contingencies.	55,198	77,811
	2,30,052	2,96,568

The excess expenditure in 47-48 was due to increased cost of establishment of the bank and extra cost of Government staff. The increase was partly due to increased Dearness Allowance and house allowance and to a sum of Rs. 8000/- paid as gratuity to the retiring secretary. The increase was inevitable.

4. The probable income and expenditure of the bank for the five years with 2%, 1 1/2%, 1 1/4% and 1% margin of inter... were furnished to Government as required in their memo No. 32709 BIII/46-10 dated20-2-47. In that statement, the estimated profit for 47-48 with 1 1/4% margin of interest was worked out as Rs. 2.27 lakhs on the assumption that the bank would issue on an average Rs.30 lakhs as loans annualy and receive repayments to the extent of about Rs. 24 lakhs. The actual working has resulted in the bank earning a net profit of Rs. 2.34 lakhs. As against the estimated income and expenditure of Rs. 15.90 lakhs and Rs. 13.63 lakhs respectively the bank earned actually Rs. 17.85 lakhs and spent Rs. 15.51 lakhs during the year 1947-48. It may however be stated that the fall in profits is not such as to justify the inference that the financial soundness of the bank has in any way been impaired. The owned capital has increased from Rs. 31.56 lakhs on 30-6-47 to Rs. 34.12 lakhs on 30-6-48. The conclusition is therefore justified that the financial condition of the bank has not been affected adversely by the reduction in the margin of interest.

5. The General review of the position reveals that the Central Land Mortgage Bank has gained what it lost by way of reduction in the interest margin by increased loan business. During 47-48 the Central Land Mortgage Bank issued loans to the primary banks to the extent of Rs. 61.55 lakhs, while it amounted to Rs. 47.66 lakhs in 46-47. One good feature is that more and more of the loans issued are being utilised for productive purposes like improvement of land by digging of wells, installing pumps etc. There was an increase in the amount of loans issued for such purposes. Thus, while loans for land improvement in 46-47 amounted only to Rs. 4.90 lakhs, during 47-48 they amounted to Rs. 8.28 lakhs.

6. In reducing the rate of interest on loans to the ultimate borrower there is generally a danger that people may resort to loans more freely. But so long as the Central Land Mortgage Bank keeps to its standards of investigation scrutiny etc. of loan applications, the expansion of loan business must be taken as a sign of progress. Mergage bank to ensure that Cheap loans are not misused for reckless borrowing or reckless lending and that the loans given are utilised for the benefit of the Agricultural classes either for the redemption of their agricultural debts or by helping them to take up schemes of land improvement or otherwise increase their production. I am stressing this aspect to the Central Land Mortgage Bank.

7. The financial condition of the Central Land Mortgage Bank is of ultimate concern to Government in fixing the margin of interest between borrowing and lending. The bank is progressively building up its reserves. The owned capital is steadily increasing and it is 9% of its liabilities as against 10% limit fixed by the Reserve Bank of India. The bank is also maintaining the Debenture Redemption Fund accounts to meet the obligations of the debenture holders. Thus, the various considerations like maintenance of sinking fund accounts, payment of interest to debenture holders, bilding up of reserves, etc. have all been satisfactorily fulfilled by the bank in the course of one year in which the reduction in the margin of interest has been given effect to. Besides, the reduction has in a way assisted the bank in developing its business and as a consequence in improving its financial position. I therefore consider that the reduction of margin of interest ordered in G.O. No. 1197, Development, dated 19-3-47 may be continued.

Development Department.

Cooperative Societies- Land Mortgage Banks- Margin between borrowing and lending rates of interest- Reduction Results- Annual report for 1947-48- Recorded.

From the R.C.S. No.Rc78545/48-J. dated 3-12-48.

G.O. Ms. No.27, d/4-1-49.
Recorded.

To the Registrar,
Cooperative Societies.

True Copy

R. Thiagaraja 9.2.54

Office Assistant,
Madras Record Office.